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The Director of Central Intelligence
Washington, D.C. 20505

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National Intelligence Council

NIC No. 02089-86/1
29 April 1986

MEMORANDUM FOR: See Distribution
FROM: George Kolt
National Intelligence Officer for Europe
SUBJECT: April Forecast and Warning Report

1. Attached is my report to the DCI based on our warning meeting held on 23 April 1986.
2. Next month's warning meeting will be held on Wednesday, 21 May 1986 at 1015 in room 7-E-62, CIA Headquarters. Please telephone attendance plans to [redacted] and have clearances certified by noon 20 May 1986.
3. I also encourage you to phone in suggestions for the agenda and proposals to make opening presentations. It would be helpful to have your comments for the next meeting by Monday, 12 May 1986.

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George Kolt

Attachment:
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Washington, D.C. 20505

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NIC No. 02089-86
29 April 1986

MEMORANDUM FOR: Director of Central Intelligence
Deputy Director of Central Intelligence

FROM: George Kolt
National Intelligence Officer for Warning

SUBJECT: April Forecast and Warning Report

I. Main Discussion Items

A. Western European Reactions On US-Libya Confrontation

1. Discussion. Although the EC has toughened its policies against Libya, most Europeans still disapprove of the US air strike. Under some conditions, however, the US might garner more key country support for another attack and, if so, there could be a snowball effect as others try to avoid being the only naysayers. Conditions for a more favorable response might include: a perception that the US intended an all-out effort with good prospects of removing Qadhafi; an attack by Libya on NATO territory; or a realization that the US was committed to a long-term effort against Libya and terrorism.

2. Warning Notice. A perception that the US plans to keep up the tension but not to act decisively to resolve the situation could complicate base negotiations in Spain, Turkey and Greece and set an anti-US tone before upcoming elections in the UK and FRG.

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B. The Impact of Falling Oil Prices on the Summit Partners

1. Discussion The US is likely to benefit more from falling oil prices than Western Europe. European countries use far less oil in production. They also export more to OPEC than the US and a

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dropoff in that trade will neutralize the advantages of lower oil prices. Most European governments intend to restrict the pass-through to consumers by new taxes rather than see past conservation efforts undermined and oil imports rise again.

The United Kingdom and Canada, the only major oil producers, face special pressure from reduced earnings. Despite her firmness in sticking to market controls, Mrs Thatcher is concerned about stabilizing the situation. [redacted] she is ready to order a marginal cut in oil production. Canada can expect problems with the Western provinces and the banking system which are hit hardest.

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2. Warning Notice. US interests in more consumption-oriented policies by the Allies seem likely to be frustrated. Trade disputes are likely to intensify as the US economy and our trade deficit grows.

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C. France: The Impact of Cohabitation

1. Discussion. Cohabitation is working better than expected so far, but is also having negative effects on foreign policy. Many analysts for example believe that President Mitterrand might have responded more favorably to US requests for support against Libya had he not viewed the issue as a test with Chirac over foreign policy.

The current uneasy relationship could last through fall but the subsurface power struggle could break into the open after the summer recess. Mitterrand may not sign Chirac's decree on electoral reform, and Chirac then will have to test his razor thin parliamentary majority--which may not hold--or retreat. And budget debates this fall will sharpen programmatic differences between them. Neither wants the public onus for precipitating a crisis and new elections but in time each may maneuver to seize popular issues and induce his opponent into a misstep.

2. Warning Notice. Problems in foreign policy formulation are likely to continue until the cohabitation rivalry plays itself out. This means a much decreased chance that a given initiative with France will be decided on its intrinsic merits.

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II. Monitoring Items

A. Poland: Jaruzelski's Priorities

1. Discussion. Jaruzelski appears to be losing momentum in his effort to break out of his foreign policy isolation. His trip to Rome and the Vatican may not happen before the fall because Craxi is unhappy with Poland's failure to make any concessions in human rights. As the June party congress approaches, Jaruzelski is switching to domestic priorities. With apparent Soviet encouragement, he is overseeing the preparation of a tough new program and concentrating on dominating the new central committee, which, in any event, will be far less flexible than the current one chosen at the peak of Solidarity's power.

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B. Portugal: The Soares-Cavaco Silva Relationship

1. Discussion. The Portuguese President and Premier remain rivals but so far Soares has stayed out of domestic affairs which Premier Cavaco Silva considers his turf. Some of Soares' foreign policy initiatives--like inviting Angolan leaders for a visit without consultations--strained the relationship and the Premier still is testy over Soares's influence in the US. If, as is possible, Cavaco Silva either engineers or stumbles into a crisis with his minority government, the truce between the two men could end and complicate foreign policy decisionmaking.

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C. Mrs Thatcher's Political Fortunes

1. Discussion. Despite the loss in the recent by-election Mrs. Thatcher seems to have strengthened her control of the Tory party in the last month. Her stand on Libya has united the Tories--even bringing ex Defense Minister Heseltine to her support--and the opposition is still split. If these trends hold, she will likely lead the Tories into the elections due by mid-1988 but expected in 1987.

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D. The Greek Economy This Summer

1. Discussion. The expected drop in US tourism will hurt the Greek economy and the sharpest impact will be on urban areas and hotels which cater to the dollar trade. But West European bookings are not down much and with short term borrowing the Papandreou government should survive an otherwise tough time without a serious financial crisis. The situation, however, could figure large in the October municipal elections and the opposition New Democracy party could make gains--if it gets its act together better than it has so far.



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